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HEADLINE: THE REGION; A Dubious Act From Evans Collides With the Act for Development Financing

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BODY:

The D.C. Council spent more than five hours last Friday discussing a bill that should never have been drafted.

Introduced in July as the Headquarters Convention Hotel Tax Increment Bond Act of 1999, this dubious piece of legislation speaks volumes about the influence of powerful special interests on the legislative process.

The measure, which was introduced by council member Jack Evans (D-Ward 2) and co-sponsored by council members Charlene Drew Jarvis (D-Ward 4) and Harold Brazil (D-At Large), clearly is at odds with the Tax Increment Financing Authorization Act of 1998.

That act authorizes the use of tax increment financing as an economic development tool. More specifically, the District is authorized to issue and sell tax-exempt government revenue bonds to help finance projects in a priority development area. A portion of the incremental growth in property and sales taxes generated by the project is then used to pay the principal and interest on the bonds.

Theoretically at least, a project should be financially feasible, have special merit and be unlikely to be developed in the absence of public financial support.

TIF applications are nonetheless subject to strict due diligence before they can be certified by D.C. officials, given the competition for limited funds available through the program, and the fact that the bonds are marketable securities.

Of the three applications that the District has received since the TIF Act was approved last year, two have been pre-certified but not approved. A third application, from IDI Group Cos., a local development firm, was found to be deficient and subsequently was returned to the applicant for modification, Valerie Holt, the District's chief financial officer, testified last week.

The applicants have been increasingly critical of the approval process, citing a provision in the act that says the CFO must certify or reject a project within 120 days of receiving an application.

Evans, meanwhile, has elected to intervene on behalf of developer Giuseppe Cecchi, president of IDI. The Evans bill would authorize TIF "as a development tool to encourage the IDI Companies to construct a headquarters convention hotel."

This legislative maneuver is nothing short of an attempt to circumvent the current law authorizing the use of TIF. The Evans bill is made worse by its narrowly drawn focus, seeking funds for a single applicant while ignoring others. That's making a mockery of the process.

Evans says he introduced the bill because he's "frustrated" by the CFO's delay in certifying the applications. "My goal is to get the city to act. How do you get the city to do what it's supposed to do?" Evans asked rhetorically.

Certainly not by making a mockery of the TIF program by attaching a special-interest bill to it.

Would it not have been better had Evans, as chairman of the council's Committee on Finance and Revenue, held an oversight hearing to ascertain the reasons for the delays in approving the TIF applications?

As it turned out, Evans now says he learned quite a lot from last week's hearing on his convention-hotel TIF bill. "It's an eye opener," he acknowledged. If nothing else, the hearing provided a forum for Holt to set the record straight on how TIF works and what's at stake.

"This bill would attempt to legislate the issuance of TIF bonds for a specific project, regardless as to whether or not the bonds would be marketable," Holt testified. The council may legislate the issuance of TIF bonds but the legislation will not sell the bonds, she added.

There is also this to consider: The TIF Act authorized a $ 300 million ceiling for the fund but much less than that is currently available.

IDI is seeking $ 25 million to help finance development of a 590-room addition to its Renaissance Washington Hotel, one block south of the new convention-center site at Mount Vernon Square. But the CFO's analysis indicates the IDI proposal may be too risky.

Cecchi contends, however, that data and assumptions that formed the basis for the CFO's conclusions were either incomplete or inaccurate. He testified last week that IDI has since addressed those matters in a memorandum to the CFO.

Cecchi further maintains that a full-service convention hotel can't support the debt financing and equity needed for development without the public subsidy a TIF would provide.

But then Cecchi miscalculated the risks involved a decade ago when he built Techworld, the mixed-use project that includes the Renaissance. Techworld was supposed to be a state-of-the-art high-tech center that was going to attract some of the country's leading technology companies. Indeed, back then Cecchi waved a handful of documents he purported to be letters of interest from high-tech executives. Today Techworld is just another office complex.

If Cecchi says he needs a subsidy to make the hotel addition a viable investment, he should rework the numbers, thus making the TIF bonds more marketable.

Meanwhile, D.C. Council members should not lose sight of Holt's reminder that the hotel proposal and the pre-certified projects are likely to exhaust available TIF funds to the detriment of projects that aren't downtown.

In the final analysis, the council clearly needs to strengthen the TIF program by adopting a stricter merit-and-needs test for applicants. If not, TIF will just be another candy dish for wealthy developers.